Written evidence submitted by North Norfolk District Council [FSR 103]

North Norfolk District Council welcome the opportunity to respond to this call for evidence, and submit our comments below in line with the Terms of Reference for the review.

Key issues

- The overall system of funding local government is incredibly complex, which means it loses its transparency.
- Changes to funding levels often come through at the last minute which does not aid financial planning, or give elected Members confidence in financial forecasts. More certainty is needed over the medium term.
- Changes to funding streams resulting from policy changes often seem to have not been thought through in the wider context of the funding system.
- Despite the localism agenda, District Councils are not in control over local sources of income, such as Business Rates and Council Tax.

1. What lessons can be learned from past changed to local government funding in England, the current financial situation of Councils, and how this has affected their ability to deliver services:

The current system by which District Councils are funded is very complex, due to systems effectively being overlaid on top of other systems as time has gone on. This has occurred when new policy directions from the Government are translated into funding streams seemingly without consideration of what is already in place. This is particularly evident within the Business Rates Retention Scheme (BRRS), but can also be seen in other elements of the system. A holistic approach to local government finance must be a priority for government to ensure that elements of funding fit together properly as a whole.

There is a lack of transparency around the current funding allocations. When the funding formulas were last revised, there was very little clarity around how the calculations were carried out and how individual authorities allocations were arrived at. It is essential that moving forward the process for allocating funding is more transparent to enable Councils to replicate these calculations.

These elements are compounded by the fact that the timing of Government announcements has often been problematic in the past. District Councils welcomed the introduction of the multi-year settlement, as it increased the level of certainty around how much funding they would receive, greatly aiding financial and service planning. However, this was often undermined by last minute announcements of grant funding or Council Tax referendum principles. The recent news that the Spending Review will cover 3 years rather the anticipated 4, reduces that certainty further. It is critical that multi-year settlements become the norm to allow District Councils as much notice of funding allocations as possible to allow meaningful planning to be carried out.

2. The efficiency, fitness for purpose and sustainability of the current system for funding local government; how it could be improved, including options for
widening the available sources of funding; and what lessons can be earned from other jurisdictions.

Incentive based funding, such as the New Homes Bonus, have encouraged Councils to grow their tax bases, but are not providing the certainty that Councils need in their funding streams, as the amounts received are based on results that will vary year-on-year. Fluctuations in incentive funding can leave Councils with large gaps in their finances, and the current issue around the continuation of NHB legacy payments is a good example of this. For this reason, Councils can become reluctant to commit these funds.

With a move towards reliance on local income sources, Council Tax and Business rates have become increasingly more important for District Councils. The BRRS is close to collapse and is currently in review by the Government, but as yet there seem to be no plans for a similar review of Council Tax. There is currently little scope for District Councils to meaningfully increase their Council taxbases, so at the very least the referendum principles should be reviewed to allow Councils to take advantage of an increase in charge. There are also large variations between areas in the amount of Council Tax that Districts can collect due to differences in demography and historical decisions around tax increases.

With the imminent move to a business rates system of 75% retention, it is vitally important that District Councils receive some clarity around how any new or revised system will work, and what risks will be involved to aid in their planning for the future and ensure their sustainability in the medium term.

District Councils act as billing authorities and play a critical role in growing local businesses and generating economic growth. ONS data shows that non-metropolitan areas contribute 56% of England’s Gross Value Added (GVA). Between 2010 and 2015, these areas increased their GVA per head by 13%, which was double the growth rate for London. The increase in business rates income under 50% retention reflects Districts’ success in generating economic growth. District Councils should be allowed to retain more of this growth to support their existing services; no additional responsibilities should be added whilst funding for their current responsibilities is not adequate.

3. How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

There is considerable uncertainty within the sector around funding from 2020-21, which is having a direct negative impact on District Councils. Many are forecasting large deficits in their Medium Term Financial Plans, which cannot be filled with extra income (for example from Council Tax, due to referendum limits) so services are at risk of being reduced or stopped altogether in order to fill the budget gaps. It is vital that the Government announce funding allocations for 2020-21 and beyond as soon as possible, along with details of any transitional arrangements.
The current measures of Councils need to spend ignores the issue of “unmet need”, and where needs are met by District Councils where the County Council has ultimate responsibility. This needs to be addressed in the Fair Funding Review.

District Councils have a significant role to play in demand reduction for health and social care services that are not recognised by the current funding formulas. The DCN has previously called for the ability for District Councils to levy a 3% prevention precept on their Council Tax bills to fund these services so that pressure on social care authorities and the NHS can be reduced.

4. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be and what the potential merits are of new or alternative approaches to the provision of funding within the review

The NAO have recently confirmed “district councils will see a 13.9% real-terms reduction during the currently spending review period. The majority of district councils… will stop receiving the revenue support grant by 2019-20”. Districts are continuing to see reductions in their core spending power for the whole period, compared to other councils who are all seeing an increase. Overall since 2010/11 the median reduction for district councils has been just over 30%. This will need to be addressed in the next spending review period. District Councils have had to bear a disproportionate share of the reductions in local government funding and therefore it is crucial that the future funding formula reverses this trend and increases the spending power of District areas, for the benefit of our residents and businesses.

With indications from the Autumn Budget that in the next Spending Review, there may be growth in line with inflation, this does nothing to address the mounting budgetary pressure on District Councils due to increases in demand. Any approach taken by the Government should resist the knee-jerk reaction of focussing only on social care funding issues, but instead focus on maintaining the long-term financial viability of the sector as a whole, in order that residents do not suffer the consequences.

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